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T.R.A. DOCKET ROOM

August 21, 2003

The Honorable Deborah T. Tate, Chairman
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243-0505

Re: Nashville Gas Company, Docket No. 99-00207

Dear Chairman Tate:

In accordance with the reporting provisions of Service Schedule No. 14, Performance Incentive Plan, as approved in the above captioned docket, Nashville Gas Company ("Nashville") submits the accompanying annual report of shared gas cost savings for the plan year ended June 30, 2003.

As the summary indicates, the accumulated total gains and savings under the plan for the plan year total \$3,489,673. Under the Plan's sharing formulas, \$1,889,673 of these gains and savings will be allocated to the Company's ratepayers. The remaining \$1,600,000, the maximum allowed under the Plan provisions, of the gains and savings is to be credited to the Company's Incentive Plan Account in accordance with the terms of the Plan.

Detailed calculations supporting the amounts shown on the summary are provided in this filing subject to the execution of non-disclosure agreements.

I am enclosing one additional copy of the summary that I would appreciate your stamping "filed" and returning to me in the enclosed envelope.

Sincerely,

Bill R. Morris

Director of Corporate Planning and Development Services

Enclosures

c: Russell Perkins, Deputy Attorney General

Report on Nashville Incentive Plan July 2002 - June 2003

Month	Year	Gas Procurement Incentive Mechanism	Nashville GPI Sharing	Ratepayer GPI Sharing	Capacity Management Incentive Mechanism	Nashville CMI Sharing	Ratepayer CMI Sharing	Total Gain/(Loss)	Total Nashville Gain/(Loss)	Total Ratepayer Gain/(Loss)
		1/	2/			3/	3/		4/	4/
July	2002	\$ (3,754)	\$ -	\$ (3,754)	\$ -	\$ -	\$ -	\$ (3,754)	\$ -	\$ (3,754)
August	2002	\$ (1,844)	\$ -	\$ (1,844)	\$ -	\$ -	\$ -	\$ (1,844)	\$ -	\$ (1,844)
September	2002	\$ 11,399	\$ -	\$ 11,399	\$ 16,205	\$ -	\$ 16,205	\$ 27,604	\$ -	\$ 27,604
October	2002	\$ 55,097	\$ 9,213	\$ 45,884	\$ 32,887	\$ -	\$ 32,887	\$ 87,984	\$ -	\$ 87,984
November	2002	\$ 6,103	\$ -	\$ 6,103	\$ 11,250	\$ -	\$ 11,250	\$ 17,353	\$ 9,213	\$ 78,771
December	2002	\$ 1,183,399	\$ 524,736	\$ 658,664	\$ 75,173	\$ 4,160	\$ 71,014	\$ 1,258,573	\$ -	\$ 17,353
January	2003	\$ 407,007	\$ 120,044	\$ 286,963	\$ 177,915	\$ 44,548	\$ 133,367	\$ 584,922	\$ 528,895	\$ 729,677
February	2003	\$ 124,930	\$ -	\$ 124,930	\$ 127,139	\$ 63,570	\$ 63,570	\$ 252,069	\$ 164,591	\$ 420,330
March	2003	\$ (179,314)	\$ -	\$ (179,314)	\$ 167,198	\$ 83,599	\$ 83,599	\$ (12,116)	\$ 63,570	\$ 188,499
April	2003	\$ (50,010)	\$ -	\$ (50,010)	\$ 1,593,887	\$ 796,944	\$ 796,944	\$ 1,543,877	\$ 83,599	\$ (95,715)
May	2003	\$ (77,843)	\$ -	\$ (77,843)	\$ -	\$ -	\$ -	\$ (77,843)	\$ 796,944	\$ 746,933
June	2003	\$ (187,152)	\$ (20,418)	\$ (166,733)	\$ -	\$ -	\$ -	\$ (187,152)	\$ (46,812)	\$ (77,843)
		\$ 1,288,018	\$ 633,575	\$ 654,444	\$ 2,201,654	\$ 992,819	\$ 1,208,835	\$ 3,489,673	\$ 1,600,000	\$ 1,889,673

1/ The monthly gain or loss set forth in this column reflects total gains or losses calculated under the gas procurement mechanism, including gains or losses within the one percent deadband.

2/ Nashville GPI sharing reflects 50% of gains or losses calculated under the gas procurement mechanism after application of the one percent monthly deadband.

3/ Nashville sharing percentages range from 0% (up to 1% of annual demand savings), to 10% (1% - 2% savings), to 25% (2% - 3% savings), and to 50% (> 3% savings). Total capacity demand costs for the period are based on estimated annual costs for the plan year. These sharing amounts shall be adjusted based on the actual demand costs incurred, taking into account refunds or surcharges from pipeline and storage supplies. (See Service Schedule No. 14, page 5)

4/ Nashville is subject to a cap on overall gains or losses of \$1.6 million annually. Any gains above this cap will be reflected in the Total Ratepayer Gain/(Loss) column

NON-DISCLOSURE AGREEMENT

Whereas, Nashville Gas Company (Nashville) has filed with the Tennessee Regulatory Authority (TRA) in Docket No. 99-00207 a summary of its shared gas cost savings for the period July 1, 2003 through June 30, 2003; and

WHEREAS, the TRA Staff, the Consumer Advocate and Protection Division of the State of Tennessee (Consumer Advocate) have been provided with supporting calculations for the summary information (Supporting Calculations); and

WHEREAS, Nashville believes that the disclosure of the Supporting Calculations to the public or to certain members of the public could adversely affect Nashville's ability to obtain favorable terms in future negotiations for gas supply; and

WHEREAS, Nashville has agreed to make the Supporting Calculations available to employees of the TRA Staff and employees of the Consumer Advocate (collectively, Authorized Agencies) on the condition that such persons execute this Non-Disclosure Agreement;

NOW, THEREFORE, the undersigned person agrees as follows:

1. The undersigned person is an employee of one of the Authorized Agencies and desires to review the Supporting Calculations solely for the purpose of reviewing Nashville's compliance with the TRA's orders in Docket No. 99-00207; and
2. The undersigned person will keep the Supporting Calculations in a secure place and will not permit them to be seen by any person who is not an employee of one of the Authorized Agencies who has executed a Non-Disclosure Agreement indicating his or her intent to comply with the terms hereof.
3. The undersigned person agrees that prior to the entry of an appropriate protective order he or she will not disclose any information obtained from reviewing the Supporting Calculations orally or in writing to any other person other than another employee of one of the Authorized Agencies who has executed a Non-Disclosure

Agreement and that upon the entry of an appropriate protective order he or she will comply with the terms thereof.

4. The undersigned person will not make copies of the Supporting Information or any portion thereof; however, the undersigned person may take notes on the Supporting Information in which event all such notes shall be subject to the terms of this Non-Disclosure Agreement.

Signature _____

Date _____